



# PRIMER



Volume XI, Number III

Indiana State Teachers' Retirement Fund

Fall 2000

## A Message from the Director

### **Our Fund: Past Advances Position the Fund for a Successful Future**

As the Fund begins to engage in the benchmarking of our performance, I have been able to reflect on the past few years and note the Fund's advances in addressing issues and providing increased member services. I want to take this opportunity to highlight these improvements and express to you my belief that our Fund is strongly positioned to experience future growth and success.

For the first time in the Fund's history, steps have been taken to offset the Fund's unfunded accrued liability. In 1995, a special *Pension Stabilization Fund* was established to pay for teacher pensions when the growth of pension disbursements in a year exceeds the State's normal revenue growth. The *Pension Stabilization Fund* currently stands at \$2 Billion due to funding from Governor O'Bannon and the Indiana General Assembly. As the *Pension Stabilization Fund* continues to grow in the future and to receive continued support, it will reduce the overall unfunded accrued liability.

Governor O'Bannon and the legislature have also broadened the realm of options available to our Fund's members over the past few years. Active members benefited from the approval of adoption leave in the 1999 Session. As a part of the same measure, members retiring after July 1, 2000 were provided with two new opportunities. Retiring members may now leave their individual annuity savings account with the Fund. Selecting this choice means members can build the investments within their accounts without being forced to rollover the money to continue active investing. There is no cost to members for this service. Further, retiring members now receive payment of an estimated portion of their retirement benefit within thirty days after their retirement. This provision helps members bridge the financial gap between the end of their service and the onset of full retirement benefit payments.

An important issue for retired members was addressed in this same bill. Retired members may now change their co-survivor designations in the event that the original co-survivor predeceases them. Before this change, those members who remarried after losing their co-survivors could not include their new spouses in their retirement benefits.

As a result of action in the most recent legislative session, active members may now contribute more of their annual compensation to their annuity savings accounts. Members are now able to strengthen their retirement savings by voluntarily increasing their contributions. This new savings opportunity is discussed in further detail in this newsletter. This option has the potential of strengthening an individual's retirement income.

One of the most important issues facing our retired members is the continued availability of cost of living adjustments. Most of our retired members have received annual cost of living adjustments since 1994. In fact in 1999, Governor O'Bannon and the legislature approved a special "purchasing power" cost of living adjustment for our oldest retired members. This essentially created a floor against inflation over time.

Important for TRF was the granting of authority to allow the Fund to become an independent corporate body politic. We now have the administrative tools to move our Fund toward a successful future. I am excited about the road that lies ahead because of our successful record of accomplishment in the recent past. With your help and the continued support of our elected officials, we will continue to seek solutions to issues that affect you. I strongly encourage you to make your voice known by continuing to express your concerns and ideas that will help our Fund grow.

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# Voluntary Contributions

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## New Law Gives Active Members an Opportunity to Increase their Individual Annuity Savings Accounts

Due to the enactment of 2000 House Bill 1283 by Governor O'Bannon and the Indiana General Assembly, active members may now contribute more of their annual compensation to their individual annuity savings accounts. Under current Indiana law, active members must contribute three-percent of their annual compensation to their annuity savings accounts. However until the adoption of this law, members could not contribute any additional amounts.

Now, active members may make voluntary contributions to their individual annuity savings accounts. These voluntary contributions may be made in whole percentage increments up to ten-percent of the member's annual compensation. However, please understand that the additional voluntary contributions are "**post-tax**" compensation. *This distinction means that these voluntary contributions will still be taxable income for tax purposes.* Please review the following questions and answers for more information:

### How do I enroll in the voluntary contributions program?

Visit your payroll administrator and request the "Voluntary Contributions to Annuity Savings Account" form. Additional copies of this form are available from our Member Service Center. Once completed, you must return the form to **your payroll administrator**. *Do not submit the form to the Fund.* If a form is improperly submitted to the Fund, it will be returned to you. Neither the Fund nor your school corporation will be liable for any improperly submitted forms.

### How will my voluntary contributions be invested?

Your voluntary contributions will be invested in the same manner as your annuity savings account monies are currently invested.

You cannot separate the mandatory and voluntary contributions for investment purposes.

### Do I have access to my voluntary contributions?

**NO.** Once contributed, the voluntary contributions become a part of your annuity savings account. This account is only accessible if you either terminate service and withdraw or retire from the Fund.

### How often may I change the whole percentage increment of my voluntary contributions?

Your local school corporation has the authority to develop a policy regulating the frequency and timing of changes. Please consult your payroll administrator to learn your corporation's policy.

### Is this the only savings option available to me?

This savings option is likely one of several savings options available to you. Contract your payroll administrator for more information regarding other potential savings options. Carefully consider all of these options before choosing to participate in a program. For example, some other savings programs may have a corresponding employer matching contribution. Voluntary contributions are not matched by your employer and are "**post-tax**". Other savings programs may be "**pre-tax**", which means contributions to these "**pre-tax**" programs would not be included in your taxable income.



## TRUSTS AND TRF

Generally, we make it a habit to keep the Legal Department away from open forums. However, this time it has useful information on an issue that is frequently asked about by members.

**Trusts and Active Retirement Benefits:** Under current Indiana law, the Fund cannot make payment of a member's active retirement benefits to a trust. Retirement benefits are to be paid only to the member.

**Trusts and Death Benefits:** The Fund may pay a member's death benefits to a trust. Anyone who is considering this option should contact the Fund's Legal Department **in writing** for a list of requirements.

Does it matter that the mid cap manager that you hired suddenly looks like a large cap manager? How can this be? You hired the firm to invest in mid cap stocks and now there are stocks in the portfolio that are clearly large cap (i.e., well above the \$8 billion level that we discussed in the last newsletter). Like so many things in life, this can be either good or bad. If the manager purchased the stocks when they were in the \$4 or \$5 billion mid cap range and they're now worth over \$8 billion, it means the manager has probably done a good job of stock picking. (Your problem now is whether to sell and collect your gains, or hold on to them in hopes of even more gains.) On the other hand, if the manager's mid cap stocks are underperforming compared to large cap stocks, it may mean the manager is trying to hide the underperformance by buying the better performing large cap stocks. In either case, this is "style drift". It means that you've gone outside of your original boundaries; you started as one kind of manager but now you demonstrate the characteristics of another. "What's the big deal?", you say. In either case the firm is making you money. The manager should be congratulated. In reality, the manager may have thrown off your asset allocation and studies have shown that, in the long run, asset allocation accounts for approximately 94% of your excess return (for the record: 2% comes from security selection, 2% from timing decisions, and 2% is statistical noise). If this continues, you may have sacrificed superior long run performance at the expense of temporary short-term gains. Style drift can also occur in "value" versus "growth" stocks. A stock that is cheap compared to some benchmark (e.g., its price/book ratio), is a "value" stock. Conversely, a stock that is growing leaps and bounds, is (obviously) a "growth stock". Generally, active managers tend to be either "growth" or "value" in their stock management, and they are normally hired for either one or the other. So, if the small cap value manager that you hired now has mid cap growth characteristics, you may have a problem.



## Mission Possible

At its July 2000 monthly meeting, the Fund's Board of Trustees adopted a new mission statement and new core values. Please join us in welcoming these changes and working together to help our Fund make significant strides in the future.

### MISSION STATEMENT

### CORE VALUES

**"To prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to our members, while demonstrating responsibility to the citizens of the State."**

1. Professionalism, respect and compassion in dealing with others;
2. Diversity, both of ideas and people;
3. Open communication, collaboration, and cooperation;
4. Integrity and the avoidance of conflicts of interest;
5. Courtesy and timeliness;
6. Accountability;
7. Innovation and flexibility;
8. Commitment to and focus on our mission.

# Compensation Rule Change

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Recently, the definition of "compensation" in the Indiana Administrative Code was amended. When a member is preparing to retire from the Fund, his or her five highest years of salary are averaged for the pension benefit calculation. Certain payments made by employing units may not be considered "compensation." If not, they are deducted from the year's salary figure used in this calculation.

Please review the following rule and note that the new language is in boldface type. Anyone with questions concerning the applicability of this rule should contact the Fund's Legal Department in writing.



## 550 IAC 2-2-7: DEFINITION OF COMPENSATION

"Sec. 7(a) 'Basic salary' **means** the monetary compensation agreed to in advance in writing **that** is earned by and paid to a teacher for services rendered under a uniform or supplemental contract for a school year running from July 1 through June 30 plus the amounts stated in IC 5-10.2-4-3 **that are** not paid directly to the member.

(b) Annual compensation does not include any of the following:

- (1) Those amounts excluded under IC 5-10.2-4-3.
- (2) A one (1) time payment, or lump sum payment, by the employer which is not made for services actually rendered or based upon the member's standard rate of pay.
- (3) Back pay awards or settlements arising out of an employment grievance proceeding except that back pay may be allocated among the years in which the service was rendered.
- (4) Payments by the employer for accrued but unused compensatory time for overtime worked.
- (5) Meals, lodging, life insurance, or other fringe benefits provided by the employer unless they fall within IC 5-10.2-4-3(c)(2).
- (6) **Payments by the employer for accrued but unused holiday, sick, personal, and vacation time, even when paid as part of a bargained agreement on a yearly or terminal basis.**
- (7) **Payments for dues for professional or other organizations.**
- (8) **Payments made as bonuses or awards for attendance, incentives, or performance, unless such payments are available to all covered members employed by the employing unit.**
- (9) **Payments in lieu of insurance coverage to members who do not participate in employer provided health insurance plans, or other fringe benefits provided by the employer.**
- (10) **Reimbursements for expenditures made by the member.**

**These items do not constitute an exhaustive list.**

(c) A member's basic salary and annual compensation must be certified by an official of the employing unit who has knowledge of and access to the records. A member may not certify his or her basic salary and annual compensation."

## Call Me

How many calls does the Member Service Center in a month? Here are some recent results:

January	4524	February	4909
March	5099	April	5521
May	3900	June	4474
July	4612	August	5748

**Average: 4848**

## WEB UPDATE

Have you visited our website recently? We have added links to Fund related legislation. In addition, we are working on establishing a link that will allow active members to view their quarterly statements online over a secure connection. This new feature will be finalized by the end of this year!

## Opportunities

The Catholic Schools Office in the Diocese of Fort Wayne-South Bend is accepting applications for full-time or part-time teaching and substitute positions. Applicants should contact the Personnel Manager, Joan Banet, (219) 422-4611, or write to: Catholic Schools Office, P.O. Box 390, Fort Wayne, IN 46801

Easter Seals Crossroads is a community resource working with children and adults with disabilities or special needs to promote growth, independence and dignity. Services for children include developmental, occupational, physical and speech therapy, respite care and childcare. Medical outpatient therapy is also available for adults and there is a job training and placement program for adults with disabilities who want to work. The Assistive Technology Center staff provides comprehensive adaptive devices for individuals' daily living and job requirements.

With the help of volunteers, Crossroads extends services to a greater number of consumers. Volunteers can work directly with young children in a variety of settings. Staff support volunteers assume clerical responsibilities, prepare mailings, clean and organize toys for therapists, and make follow up calls. For more information, please call Teresa Sherow at (317) 466-1000 Ext. 2446. Easter Seals Crossroads is located at 4740 Kingsway Drive, near the intersection of Keystone and 52<sup>nd</sup> Street in Indianapolis. Parking is free and adjacent to the building.

## SOCIAL SECURITY EARNINGS

### LIMITATION

#### *Change in Federal Law Benefits Retired Fund Members*

On April 7, 2000, President Clinton signed into law Public Law 106-182, the Senior Citizens' Freedom to Work Act of 2000. This legislation eliminates the Social Security (normal retirement age) retirement earnings limitation to which the Teachers' Retirement Fund reemployment statute is linked. The Act eliminates the earnings test after the retiree reaches normal retirement age. This earnings test triggers the Indiana reemployment statute and the related Indiana Administrative Code provisions.

Since there is no longer a Social Security normal retirement earnings limitation, *retired teachers over the normal retirement age may earn any amount in a covered position after retirement and still receive their pension benefit.*

We want to note that Indiana law still requires a minimum of 90 days separation from employment in a covered position after retirement in order for retirement benefits to start without being suspended. The federal law does not change this Indiana law requirement.

Please understand that the Fund cannot speculate as to what changes, if any, the Indiana General Assembly may make with respect to these reemployment regulations. Should you have any questions, please contact our offices.

## Straight Talk about DIRECT DEPOSIT

If you are currently receiving a monthly benefit check, we strongly encourage you to consider the benefits of having your payment directly deposited to your bank account.



Using direct deposit ensures that your monthly benefits will be deposited on or before the first banking day of each month. Despite best efforts, checks can get delayed or even lost (about 10 – 25 each month are reported lost). A retiree facing this situation must wait 10 days before filing an affidavit with our office to have a duplicate check produced, while direct deposit eliminates this risk. Instead of receiving a paper check, retirees using direct deposit receive a statement of their payment for record-keeping purposes.

Anyone interested in using direct deposit must complete an "Application for Direct Deposit" form. This form is available from our Member Service Center [(888) 286-3544] or our website. Protect your pension check by having it deposited directly to your bank account!



## Contacting Your Fund

You can find out about the following at our main numbers:

**(317) 232-3860 / Toll-Free (888) 286-3544**

- ✓ Benefits Checks Deductions
- ✓ Benefit Check Health Insurance Deductions
- ✓ Counseling
- ✓ Death Reports
- ✓ Direct Deposits
- ✓ Lost Checks
- ✓ Service Credit
- ✓ Withdrawals

### **Other Services:**

**Investments..... (317) 232-3868**

**TDD/TTY..... (317) 233-3306**

**Director's Office... (317) 232-3869**

**FAX Number..... (317) 232-3882**

Visit our site on the World Wide Web at:  
**<http://www.state.in.us/trf>**

You can send our office an electronic mail message at: **[trf@state.in.us](mailto:trf@state.in.us)**

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## ***Fund Facts***



- As of June 30, 1999, the Fund had:
  - 77,745 Active Members
  - 31,325 Retirement Benefit Recipients

- **36:** Number of members who are 100 years or older
- **7:** Number of co-survivors who are 100 years or older
- **3:** Number of members who are 105 years or older
- **3:** Number of members who are 78 years or older and still actively teaching

We have a co-survivor who is receiving benefits from a member who retired in **1939!**

## **Retirement Processing Update**

**As of August 31, 2000, our staff has:**

**Distributed**

**2248**

**Retirement packets**

**Processed**

**1603**

**Retirements**

The Indiana State Teachers' Retirement Fund *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Fund Handbook or by contacting the office.

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